AR71

Shiningbank Energy Income Fund

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dependable

performance

Annual Report to the Unitholders 99

Shiningbank Energy Income Fund is an oil and gas royalty trust that has provided investors with consistent returns since inception in 1996. The Fund is an open-end mutual fund that distributes a tax-effective income stream through quarterly distributions. Operationally, Shiningbank is a petroleum producer with the highest weighting of natural gas volumes among its peers.

22.5% was our total return for 1999

The Fund acquires producing properties, improves field performance and markets its natural gas, natural gas liquids and oil. These activities offer investors exposure to commodity prices while maintaining a low risk investment in the oil and gas industry.

The Fund's units trade on the TSE under SHN.UN.

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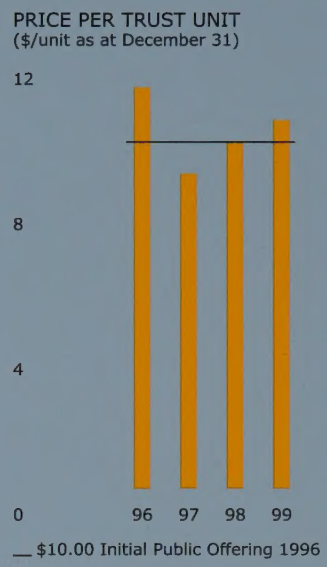
Our annual compound rate of return since inception is **21%**

($ thousands, except per Trust Unit amounts)	1999	1998
FINANCIAL		
Oil and natural gas sales	**44,129**	30,163
Distributable income	**17,400**	11,562
Per Trust Unit	**$ 1.60**	$ 1.43
Acquisition and development costs	**28,283**	30,578
Long term debt	**35,519**	39,602
AVERAGE DAILY PRODUCTION		
Oil (bbl/d)	**1,298**	1,208
Natural gas (mmcf/d)	**27.5**	24.7
Natural gas liquids (bbl/d)	**697**	478
Oil equivalent (boe/d)	**4,741**	4,151

dependable performance

Shiningbank has consistently provided unitholders with exceptional rates of return. Our investors have received stable distributions and our unit price has consistently remained strong. We attribute this success to a focus on the three cornerstones of our business.



We generate consistent and

three cornerstones quality assets

- We have built – and control – a secure base of high quality assets.
- Properties have stable production characteristics.
- 58% of our production comes from natural gas properties.
- Natural gas demand is rising and price forecasts show an upward trend.

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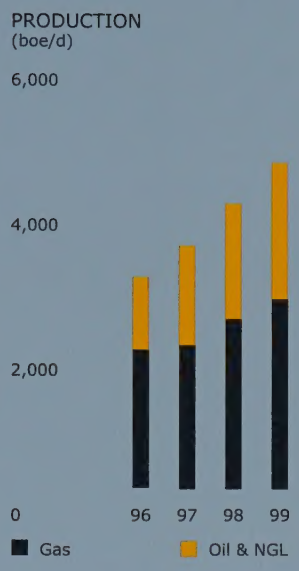
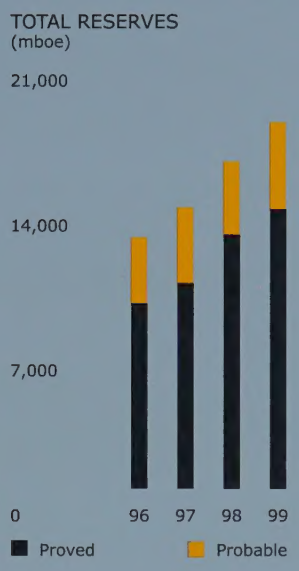




stable **returns** for our investors

credible management

- The same team of oil and gas professionals has been in place since inception.
- Dedicated to generating superior returns.
- Stability of the unit price indicates market support for management's strategies.

strong balance sheet

- Excellent debt to cash flow and debt to equity ratios.
- Consistently able to raise equity to acquire properties.
- Fiscal policies are dedicated to growing the value of the Fund.

Shiningbank Lake is located in the heart of the Fund's asset base. Shiningbank stems from an Aboriginal name describing the lake's clay banks, which shine like gold in the sun.

Fellow

Unitholders

Dependable Performance is the theme of our 1999 annual report. Most of our investors are aware of how well Shiningbank performed in 1999 – and since our inception in 1996. In this year's report we will explain why we continue to be a leader in our sector, and give greater insight into the workings of the Trust. We will also look ahead to what we see on the horizon for Shiningbank and its investors.

CONSISTENTLY STRONG RETURNS

Shiningbank once again generated excellent returns for its investors in 1999 – as it has since the Fund was formed in 1996. Performance in a royalty trust is often discussed in terms of total return, a measure that includes both the change in unit price on the stock market, and distributions paid quarterly to unitholders. First of all, let's look at the factors that make up total return and which contributed to our strong performance.

Our unit price has been consistent and strong. Shiningbank was first listed on the Toronto Stock Exchange in 1996 at $10 per unit. At the end of 1998, the trading price was still $10 per unit, even though shares of oil and gas companies and other royalty trusts had dropped drastically in the wake of a collapse in world oil prices. In 1999, our unit price again exhibited strength and stability. We closed 1999 at $10.65 per unit. This strength was in sharp contrast to the rest of the conventional oil and gas royalty trust sector. Even though oil prices recovered in 1999, the sector's index showed unit prices trading well below the 1996 average.

Shiningbank is one of the few trusts to have maintained stable distributions over the last three years. At the worst point in the drop in oil prices, the winter of 98/99, Shiningbank's distributions declined only five cents per quarter. Our high distributions were achieved despite crude prices falling in half, and a warm winter that depressed gas prices during the prime heating season. Our distributions have remained steady without having to resort to increasing bank debt or selling assets. This is the dependable performance that investors are looking for.

We know that all of our investors are looking for attractive rates of return. Since inception, we have generated a 21% compound annual rate of return. In 1999, our total return was 22.5%. Needless to say, we are very pleased with this performance. One note though: the unit prices of most trusts were severely impacted by low oil prices in 1998 and, as oil prices have rebounded, they will have excellent rates of return for 1999. Our focus has been consistency – and our unitholders have had a high yielding, secure investment in the oil and gas sector.

Once again, we reached new highs in our financial and production results. In 1999 we:

- Distributed $1.60 per unit during the year.
- Earned $4.7 million on revenues of $44.1 million.
- Increased our revenues by 46%.
- Grew our production volumes by 14%.
- Improved operating netbacks, mainly through higher commodity prices.
- Completed our largest single property acquisition yet, the purchase of the Caroline property.

LOW RISK, HIGH REWARD

Many investors in the royalty trust sector are looking for a steady source of income. They have agreed to take commodity price risk in exchange for higher rates of return than can be achieved in traditional income vehicles.

ANNUAL DISTRIBUTIONS
($/Trust Unit)

* 6 months – formed mid-year

Shiningbank's distributions have been significantly less volatile than the average in the conventional oil and gas royalty trust sector. This stability is directly linked to the high quality of our assets and our high percentage of natural gas production.

OUR THREE CORNERSTONES

Shiningbank's formula for success involves three major elements – all of which have been cornerstones of the Fund's operation since it was formed:

- We have assembled a portfolio of high quality assets which we continue to add to each year;
- We have a management team that is highly competent in their respective disciplines and is viewed by the investment community as reliable and credible;
- We have a strong balance sheet that allows us to use prudent levels of debt to enhance our asset base and distributions.

CORNERSTONE #1 – HIGH QUALITY ASSETS

High quality assets are an important part of our success. Possibly the most important feature of Shiningbank's assets is our high percentage of gas production. At the outset of the fund in 1996, we made a strategic decision to focus on natural gas, with a target weighting of 60%. We still believe that natural gas is the commodity most likely to provide stable and increasing returns to our unitholders over time. Crude oil pricing is subject to severe fluctuations that are rooted in global economics and politics. This turmoil has minimal impact on the gas market. Focusing on natural gas was not a particularly popular view in 1996 yet, over time, it has been important to the stability of both our unit price and distributions. Shiningbank remains the royalty trust with the highest percentage of natural gas production.

A second important aspect of our assets is that we hold no heavy or medium gravity oil. All of our oil production is classified as light. These lighter grades receive a higher price, which improves netbacks and, as seen in our financial performance, reduced the impact of low oil prices on our cash flow. Our natural gas receives a premium price as it is rich in natural gas liquids and therefore, has a higher energy content compared to standard gas. Shiningbank's gas receives an average 8% price premium because of this higher quality. Both of these factors, light oil and liquids-rich natural gas, are indicative of the high quality assets we hold.

OUR LARGEST ACQUISITION EVER

One of the most important events in 1999 for Shiningbank was the acquisition of the Caroline light oil and liquids-rich gas property in July. The property is attractive because:

- Light gravity crude oil generates high netbacks.
- Caroline is a mature producing field that was developed by a major Canadian producer. This reduces risk.
- We operate the property so we dictate the pace of development.
- We acquired pipelines and processing infrastructure which generate substantial cash flow from third parties.
- The percentage of gas production will increase over time.
- Substantial opportunities exist to enhance production through low risk development activities.

The acquisition was made when crude oil prices were still fairly low and its value has increased as oil prices have recovered. We were able to finance the acquisition by issuing new Shiningbank Trust Units at a price that was not dilutive to our existing unitholders.

Two factors were weighed carefully in deciding on the Caroline purchase. Only 30% of current production is natural gas. This has reduced Shiningbank's overall gas weighting by 5% to 58%; still within our target. We also saw higher operating costs in the second half of 1999 as we optimized wells to improve reservoir performance and production. Both of these factors were far outweighed by the low risk opportunities to increase production at Caroline. We now have a property where we can add substantial production through development.

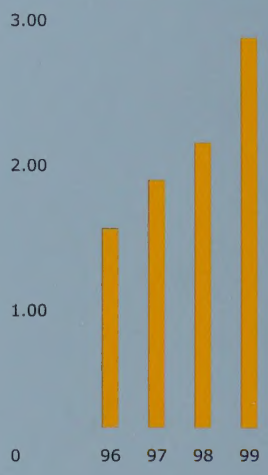
CORNERSTONE #2 – CREDIBLE MANAGEMENT

An important reason for the stability in our unit price is that the market views our management team as highly credible. The same team has been in place since we began operations and this has provided continuity in our business affairs. We are confident in saying that we have a reputation for integrity and credibility with both investors and business partners. This is an important factor in being able to complete business deals to grow the Fund. We have also seen its importance in the stock market's support of our unit price.

THE NATURAL GAS ADVANTAGE

The outlook for gas prices is very positive. Across North America, natural gas is becoming the industrial fuel of choice. It is cleaner burning than other fossil fuels, and pricing has been more consistent than crude oil. Many large industrial users can easily switch between the two fuels.

ALBERTA SPOT GAS PRICES
(annual average – $/mcf)



In addition, new pipelines to US markets have opened up huge export opportunities for Canadian producers, at a time when US oil and gas companies are finding it harder to replace production with new reserves. These trends were identified by Shiningbank when the Fund was formed in 1996 and, consequently, today we have the highest weighting of natural gas in our sector.

HOW TO CALCULATE RATE OF RETURN

Total rate of return includes two factors: distributions paid to unitholders, and the price of units trading on the TSE.

Here's how to calculate our 22.5% return for 1999. On January 1 an investor would have paid $10 per unit and received distributions for the year totaling $1.60. At year-end 1999, the units were worth $10.65. The formula:

Unit price Dec. 31	$	10.65
Unit price Jan. 1	–	10.00
		0.65
Distributions	+	1.60
	$	2.25

$2.25 is a 22.5% return on the initial $10.

Here are the factors behind our 21% return since inception. An investor who bought in 1996 at $10 per unit has received distributions of $5.46 per unit, over half the original unit price. At year-end 1999, the units were worth $10.65. This generates a 21% compound rate of return.

One issue of increasing interest to all shareholders is corporate governance – how we ensure investors' interests are paramount. At Shiningbank our Board of Directors includes three independent members, all experienced oil and gas professionals. These independent voices are the sole members on three important committees: the Audit Committee, Compensation Committee, and the Environmental, Corporate Governance and Reserve Review Committee, where our environmental operations are monitored and our reserves are given independent review.

CORNERSTONE #3 – FINANCIAL STRENGTH

The third factor behind Shiningbank's success is financial strength. All royalty trusts need to periodically find new funding to purchase properties. This is because all cash flow is paid out to unitholders in distributions. Essentially the only sources of cash for acquisitions – in other words, major growth – are new equity and debt.

We have been able to issue equity, at a good price, at times when other market players have been unable to do so. When oil prices collapsed in late 1997, the market for new equity dried up as investors retreated from the oil and gas industry. Yet the market continued to show interest in Shiningbank and our unit price remained strong. This allowed us to raise new equity and continue to grow the Fund.

We went to the equity market twice in 1999, once in February for $10.5 million, which was used to fund acquisitions made in late 1998; and again in July for $19.8 million to finance the Caroline acquisition. Both of these offerings were well received by the market and were priced at levels that avoided dilution to existing unitholders.

Financial strength is also seen in how we manage our level of debt. The Fund uses bank debt for acquisitions or field development activities that will generate sound growth. Debt levels can not exceed certain conservative thresholds set out in our trust indenture. At year-end 1999, we had long term debt of $36 million drawn on lines of credit of $54 million. This equates to a very manageable debt level of 1.6 times our forecast 2000 cash flow.

OUR VIEW OF COMMODITY PRICES

Probably the greatest risk faced by Shiningbank unitholders is commodity price volatility. Last year we reported oil prices at their lowest level in a decade. This year, oil prices are currently at their highest level in a decade. We do what we can to smooth out the bumps through our hedging programs but, in the end, the market makes the price. On the plus side for the coming year we see the following factors:

- OPEC supply cuts were primarily responsible for the oil price recovery in 1999 and, so far, the cartel has shown restraint and maintained supply quotas.
- As Asian economies continue to recover, increased oil demand will support crude prices.
- North American gas supplies are under pressure as the industry struggles to keep pace with demand.
- Increasing environmental awareness is leading to more demand for 'cleaner-burning' natural gas – it is becoming the preferred fuel.
- Steady economic growth in Canada and the US is strengthening demand for both natural gas and oil.
- Construction of new pipeline export capacity is improving access into US markets for Canadian gas.

Two factors do present challenges:

- Current high oil prices are being maintained largely by restraint within OPEC, which we do not see as being sustainable.
- Unusual weather patterns have reduced the predictability of gas prices. This makes price management more difficult.

We are pleased to see crude prices at high levels, but we are not confident they can remain there for long. Our internal forecasts currently use US$20.00 per bbl. With swings in crude prices being largely a function of global economic and political factors rather than real supply/demand issues, we will continue to weight our commodity mix towards natural gas.

We see good fundamentals in the gas market for the foreseeable future. We are currently using an average price of $2.90 per mcf in our 2000 forecasts. At time of writing, this forecast is slightly lower than prevailing market prices. The warm winter has softened prices slightly but, even at the current level, Shiningbank unitholders should see strong distributions continue.

WHERE IS SHININGBANK GOING?

As with all conventional royalty trusts, it is critical that we continually replace produced volumes with new reserves. Shiningbank has historically grown by acquisition, supplemented by development of the existing asset base. For the foreseeable future, Shiningbank will likely grow more by acquisition than by development – it involves less risk. However, there are times when the acquisition market becomes overheated and prices for properties became too high. We now have more options for growth. The Caroline property gives us a way to add significant production and reserves through development, rather than solely through acquisition.

At the moment, equity markets are depressed for the oil and gas industry; investors have yet to regain their confidence in oil prices and the industry. Many traditional exploration and production companies are having difficulty raising new equity to fund drilling. Without money flowing in from the investment community, companies may be forced to sell properties outside of their main operating areas. This would mean more acquisition opportunities for Shiningbank.

If property prices are too high, we can respond in two ways. Shiningbank can concentrate on development at Caroline, funded by cash flow and debt. Our second option is to acquire higher interests in our existing properties. We believe the management team has the industry contacts and negotiating skills to make these purchases at reasonable prices.

MAINTAINING FOCUS

As we move into 2000, we are aware of how important it is to maintain focus. To continue our track record of dependability for our unitholders, we will stick close to the cornerstones of our business. Our asset base will remain gas-focused. Our balance sheet and financial performance will be managed to optimize distributions and provide a high rate of return for our investors. We have a highly experienced, credible team in place and we are committed to remaining a top performing royalty trust in the conventional oil and gas sector.

In closing, we would like to thank our staff and Board members for their support in 1999. Their input, guidance and hard work are critical to Shiningbank's record of success.

Arne R. Nielsen
Chairman and CEO

David M. Fitzpatrick
President and COO

March 15, 2000

THE MANAGEMENT TEAM

From left: Don Mundie, Vice President, Land; Bruce Gibson, Vice President, Finance & Chief Financial Officer; Arne Nielsen, Chairman & Chief Executive Officer; Greg Moore, Vice President, Operations; Dave Fitzpatrick, President & Chief Operating Officer.

Shiningbank's management have spent all of their professional lives in the oil and gas business. The team is led by Dave Fitzpatrick and Arne Nielsen. As a professional engineer, Mr. Fitzpatrick has a strong hands-on approach to property management, while Mr. Nielsen is one of the industry's pioneers. His 50 years in the business includes being Chairman and CEO of Mobil Oil Canada Ltd., the first Canadian to hold such a position with a multi-national. He was inducted into the Canadian Petroleum Hall of Fame in 1998, and was recently named to the list of 100 Albertans who had an impact on the 20th century.

ASSET BASE

The Radial Lake acquisition added gas volumes in 1999

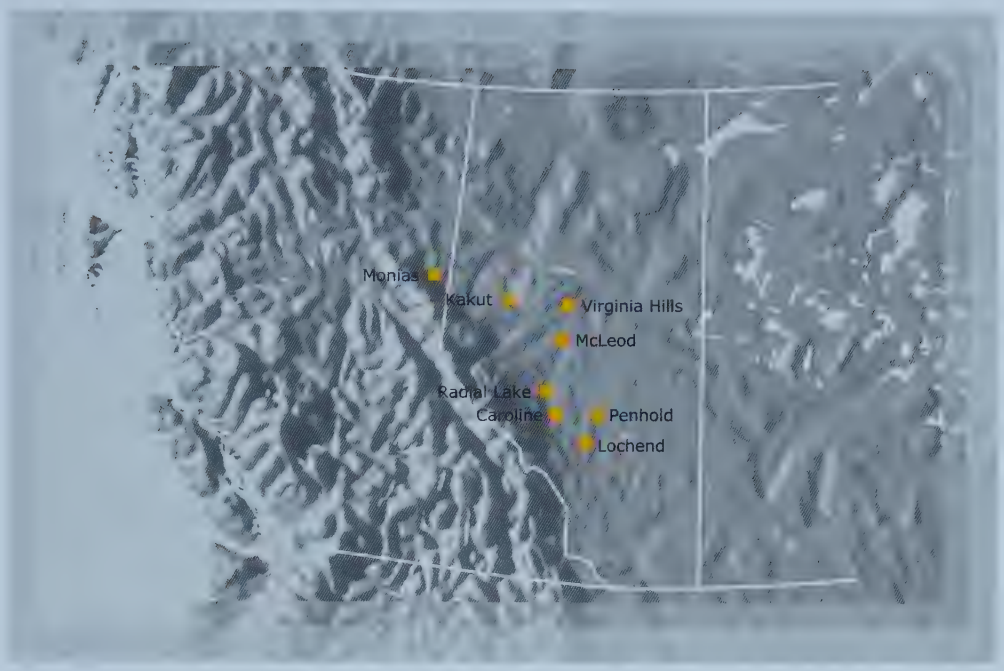
CONCENTRATION OF ASSETS

Most of our properties are located along a huge gas-prone geological trend in west central Alberta. This geological fairway starts northwest of Calgary and runs along the eastern edge of the foothills in Alberta and crosses the border into British Columbia. Shiningbank Lake, the company's namesake, lies in the middle of this trend.

This geographic concentration brings many operational efficiencies ranging from operating personnel overlapping between areas, technical similarities between properties to marketing synergies, all of which help to reduce costs and improve netbacks.

CHARACTERISTICS OF PROPERTIES

Shiningbank's properties produce light oil or natural gas. The depth and pressure of the producing formations result in the natural gas having a high concentration of natural gas liquids such as condensate, butane and propane. This liquids-rich gas is sold at a premium, which adds to netbacks. Wells drilled into these formations tend to have higher production, and so fewer wells need to be drilled to produce the reserves. Fewer wells also reduce the future abandonment liability we must carry. Our properties are mature fields with long production histories and limited production or reserve risk.



The Caroline and Radial Lake acquisitions were a big factor in our production increasing 14%

1999 AVERAGE DAILY PRODUCTION BY AREA

Area	Operated	Oil bbl/d	Gas mcf/d	NGL bbl/d	Total Oil Equivalent* boe/d
Alberta					
Mcleod	Part	2	6,996	230	932
Kakut	Yes	167	3,240	43	534
Caroline	Yes	154	1,153	81	350
Penhold	Yes	20	1,867	77	284
Virginia Hills	No	193	98	–	203
Lochend	Yes	34	757	79	188
Morse River	Yes	137	–	–	137
Medicine Hat	No	–	1,310	–	131
Doe Creek	No	–	928	15	107
Radial Lake	Yes	–	804	23	103
Whitecourt	No	–	975	4	102
Lator	Yes	25	280	26	79
Other		421	3,329	115	870
Monias, BC	Yes	–	5,723	4	576
Rodney, Ontario	Yes	145	–	–	145
		1,298	27,460	697	4,741

*includes oil, gas and NGL, with gas converted to oil equivalent at 10 mcf = 1 bbl.

PRODUCTION AND RESERVES

Production

Production volumes averaged 4,741 boe/d in 1999, up 14% from 4,151 boe/d in 1998. Production increases came mostly from properties purchased at Mcleod in the latter half of 1998, and the Caroline and Radial Lake acquisitions in 1999.

Total average production was comprised of natural gas at 27,460 mcf/d, up 11% from 24,659 mcf/d in 1998. Oil production was 1,298 bbl/d, up 7% compared with 1,208 bbl/d in 1998, and natural gas liquids volumes averaged 697 bbl/d, an increase of 46% over 478 bbl/d in 1998.

Natural gas made up 58% of our production mix in 1999, down slightly from our 60% weighting in 1998. This decline was due to the impact of the Caroline acquisition, but is still close to our target gas ratio of 60%.

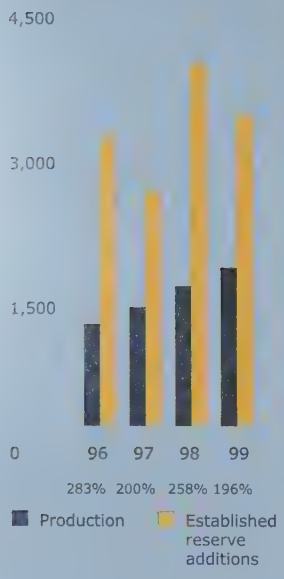
Reserves

Shiningbank's established reserves (proven plus 1/2 probable) rose by 1.6 million boe in 1999, an 11% increase from 1998. Acquisitions of producing properties added 3.8 million boe of established reserves. Development and exploitation activities added a further 329,000 boe, but revisions of estimates reduced reserves by 759,000 boe. The net present value of the reserves rose by 25% to $121.2 million due to both increased volumes and higher price forecasts. The proved producing category made up 93% of total proved reserves.

Acquisition costs per boe were below 1998, but higher than in other years due to the acquisition of significant processing facilities at Caroline. These processing facilities generate cash flow, but have no reserves attached and, accordingly, increased the total cost of acquired properties to $6.60 per established boe. When evaluated without the cost of the processing facilities, the acquisition cost per established boe for 1999 was $5.81.

Reserve Life Index (RLI) indicates how many years are left to produce reserves at today's rate. A very long RLI is not necessarily a strength. It can indicate value locked in the ground that will not benefit investors for many years. Ten years is considered a reasonable RLI.

RESERVE REPLACEMENT
(mboe)



A much more important measure of long-term stability is Reserve Replacement. This shows a trust's ability to replace the reserves being produced every year. Shiningbank has replaced approximately twice its production, or better, since inception.

RESERVES RECONCILIATION

	Oil and NGL (mbbl)			Natural Gas (bcf)			Barrels of Oil Equivalent (mboe)		
	Proved	Risked Probable	Established	Proved	Risked Probable	Established	Proved	Risked Probable	Established
December 31, 1998	5,528	1,152	6,680	73.6	7.3	80.9	12,888	1,882	14,770
Acquisitions, net of divestitures	1,687	567	2,254	13.4	2.1	15.5	3,033	773	3,806
Development	150	–	150	1.7	0.1	1.8	320	9	329
Revisions	(106)	(368)	(474)	(2.2)	(0.6)	(2.8)	(328)	(431)	(759)
Production	(728)	–	(728)	(10.0)	–	(10.0)	(1,730)	–	(1,730)
December 31, 1999	**6,531**	**1,351**	**7,882**	**76.5**	**8.9**	**85.4**	**14,183**	**2,233**	**16,416**

Established reserves consist of proved plus half of probable reserves.

VALUE OF RESERVES USING ESCALATED PRICES

	Discount factor			
($ thousands)	0%	10%	12%	15%
Proved	$ 207,245	$ 120,175	$ 111,518	$ 100,918
Risked probable	35,658	11,279	9,643	7,830
Established	$ 242,903	$ 131,454	$ 121,161	$ 108,748

ACQUISITION AND DEVELOPMENT COSTS

	1999	1998	1997	1996	Cumulative
Costs per barrel of established reserves					
Acquisition costs	**$ 6.60**	$ 6.75	$ 6.36	$ 5.09	$ 6.25
Development costs	**$ 3.32**	$ 4.88	$ 2.72	$ –	$ 3.42
Total acquisition and development	**$ 6.34**	$ 6.72	$ 6.20	$ 5.09	$ 6.14
Field netback per boe	**$ 14.92**	$ 10.20	$ 13.24	$ 13.28	
Recycle ratio (netback/acquisition and development costs)	**2.4**	1.5	2.1	2.6	
Reserve replacement (% of production)	**195%**	258%	200%	283%	

ESCALATING PRICE ASSUMPTIONS

	Crude Oil		Natural Gas	NGL	
	West Texas Intermediate US$/bbl	Edmonton Light Crude Cdn$/bbl	Alberta Reference Cdn$/mcf	Average Alberta Price Cdn$/bbl	Cdn/US Exchange Rate
2000	$ 21.00	$ 29.43	$ 2.67	$ 16.62	$ 0.69
2001	$ 20.00	$ 27.57	$ 2.75	$ 15.44	$ 0.70
2002	$ 20.50	$ 27.85	$ 2.75	$ 15.60	$ 0.71
2003	$ 20.91	$ 28.00	$ 2.75	$ 15.70	$ 0.72
2004	$ 21.33	$ 28.56	$ 2.75	$ 16.08	$ 0.72

NGL prices have been adjusted for product quality and transportation charges.

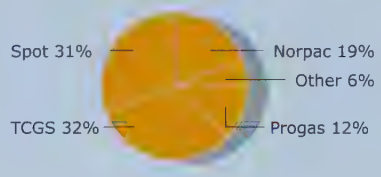
MARKETING

GAS CONTRACTS

We market our gas production to a variety of aggregators and to the spot market. This sales mix is aimed at reducing volatility and maximizing prices through access to virtually all of the major North American gas markets.

Approximately two-thirds of our production is sold to aggregators, which are companies that pool gas from many producers and sell the volumes to a diverse mix of sales contracts all over North America. This mix of contract lengths, buyers and locations helps to smooth out volatility in gas prices. Aggregator prices tend to follow the market up and down, but with less volatility than the spot market. Shiningbank receives a price based on each aggregator's netback from their pool of sales contracts.

NATURAL GAS MARKETS



A proven marketing approach

The remaining one-third of our gas is sold on the daily and monthly Alberta spot market. The spot market reflects rapidly changing market conditions and it is possible to capture upside pricing spikes. We sell a smaller percentage of our volumes on the spot market due to the risk associated with downside pricing trends.

OIL MARKETING

Oil and natural gas liquids production is sold on 30-day evergreen contracts to major purchasers. Shiningbank actively seeks out higher margins by monitoring purchasers' prices and differentials – the prices for different grades of oil.

HEDGING

We have an active hedging program. The program's objective is to reduce the volatility of distributions and to "lock-in" cash flow to ensure that distribution targets are met. The strategy involves constant monitoring of futures contracts. The Fund has a limit of 50% of production volumes that can be hedged at any one time. In 1999 hedged volumes averaged only 19% of natural gas and 21% of crude oil production.

PRICING OUTLOOK

In early 1999 when we wrote to unitholders, crude prices were at their lowest level in a decade. In 2000, as this is written, crude prices are at the highest level in a decade. We are currently enjoying the benefits of high oil prices. Nevertheless, we remain committed to the view that natural gas is the commodity of choice for Shiningbank and its unitholders over the long term.

that involves a variety of aggregators and the spot market

Our view of the fundamentals of the gas market is very optimistic. Although there are seasonal fluctuations, gas markets are much more stable than crude oil markets, and gas pricing and demand have been steadily moving upward for the last five years. This is what makes Shiningbank's gas-weighted product mix so compelling. While oil has been grabbing headlines with very recent, tremendous price appreciation, gas has been quietly showing strength. Our view is that we will see fundamentally strong gas markets for the foreseeable future based on a number of factors: the pressure of oil price volatility on industrial users, international economics and politics, sensitivity to environmental concerns, and growing industry and government sentiment that gas is a cleaner burning fuel for electrical generation.

ACQUISITIONS

Our acquisition program in 1999 was very successful and, once again, we replaced almost twice our production volumes with new reserves. This replacement is essential to the health and sustainability of an oil and gas royalty trust.

COST PER BOE

Overall, acquisitions in 1999 cost Shiningbank $6.60 per boe of established reserves. This statistic is somewhat misleading in that the Caroline acquisition costs included the purchase of a significant cash flow stream from third party use of processing facilities. When this factor is removed, the acquisition cost amounted to $5.81 per boe for 1999. On a cumulative basis, and using $6.60 for 1999, average costs since 1996 have been $6.25 per boe.

RECYCLE RATIO

Shiningbank uses the recycle ratio to compare different property acquisitions. Recycle ratio is the ratio of operating netback per boe (revenue less royalties and operating costs) to acquisition costs per boe. Where projected netbacks are at least two times acquisition costs, the deal meets our criteria. This allows us to compare properties on an equal footing, even if they have different production characteristics. The recycle ratio also is an important guide when looking at paying higher prices for higher quality properties.

RADIAL LAKE

Our major gas acquisition in 1999 was the $4.1 million purchase of the Radial Lake property in June. This acquisition was primarily of natural gas and natural gas liquids production and reserves, and independent engineers assessed the property at 753,000 boe of established reserves. The property is expected to produce 135 boe/d in 2000 and has a reserve life index of 12.2 years.

The Caroline acquisition added facilities that generate revenue from processing of other companies' oil

Caroline provides development opportunities for growth when the acquisition market is overheated

In July, we completed the largest single acquisition in our history, the $19 million (net) purchase of an 81% interest in the Caroline Cardium "B" Sand Unit No. 1 in west central Alberta, together with interests in other production units and minor properties in the area. This included $3 million paid for plant facilities that generate significant processing income from third parties. A $19.8 million equity issue, also placed in July, financed the acquisition. Independent engineers evaluated the property at 2.7 million boe of remaining reserves. Average production of 675 boe/d is expected in 2000, implying a reserve life index of 7.8 years.

The property, now operated by Shiningbank, produces approximately 50% oil, 30% natural gas and 20% natural gas liquids. When purchased, the property had several opportunities for immediate production enhancement. Many of these projects were completed in 1999 and we significantly increased production in the first few months. These activities generated higher operating costs for the property in the third and fourth quarters. With most of the work completed, operating costs are expected to return to a more normal level in 2000. However, there are a large number of infill drilling opportunities that could further enhance the field's performance. These opportunities will be pursued in 2000 as funds become available.

RESULTS OF OPERATIONS

Production Volumes

Daily production volumes grew an average 14% during 1999, mainly as a result of production added by acquisition, offset by natural declines of producing properties. The Fund's natural declines are estimated to average 10% per year. Natural gas liquids (NGL) production grew by 46% due, in part, to a change in a marketing contract which resulted in NGL volumes being sold separately, rather than as part of the natural gas stream as in 1998. This raised NGL production and reduced average natural gas prices.

DAILY PRODUCTION VOLUMES

	1999	1998	% change
Oil (bbl/d)	**1,298**	1,208	7%
Natural gas (mmcf/d)	**27.5**	24.7	11%
NGL (bbl/d)	**697**	478	46%
Oil equivalent (boe/d)	**4,741**	4,151	14%

Management's discussion & analysis

Both oil and gas volumes were higher due to the acquisition of the Caroline property in the third quarter. This added an average 700 boe/d for the second half of the year: 33% gas, 44% oil and the remaining 23% NGL. Barring the addition of new properties, Caroline is expected to be the Fund's largest producing area in 2000. At the close of 1999, Caroline was producing over 800 boe/d and the Fund's total production rate was 5,100 boe/d.

Pricing

AVERAGE PRICES

	1999	1998	% change
Oil (Cdn$/bbl)	**25.85**	17.65	46%
Natural gas (Cdn$/mcf)	**2.68**	2.23	20%
NGL (Cdn$/bbl)	**19.54**	13.65	43%
Oil equivalent (Cdn$/boe)	**25.50**	19.90	28%

Oil prices recovered dramatically as the year progressed, rising from a low of less than US$12 per bbl in February to more than US$25 by year end. Natural gas prices were 20% higher in 1999 than in 1998, even though prices were soft in the first and fourth quarters due to warm winter weather. These lower winter prices were offset by steadily rising and unusually strong summer prices, which continued to be driven by increased gas pipeline capacity out of Alberta and strong demand for natural gas outside of the traditional winter heating markets.

Gas sold to market aggregators received generally lower prices in 1999 than volumes sold on the spot market. Short term spot prices rose rapidly through the year while aggregators were selling gas under longer term contracts, which do not react as rapidly to rising prices. Shiningbank's gas is sold at an approximate 8% premium due to its high heat content, and this helped mitigate the impact of lower prices received from aggregators in 1999.

Hedging Policy and Results

Shiningbank maintains an active hedging program for both oil and natural gas production. During 1999, the Fund had an average of 5.1 mmcf/d (19%) of gas, and 275 bbl/d (21%) of oil production hedged. Under the Fund's hedging policy, not more than one-half of production volumes can be hedged at any one time. The objective of this activity is to assure acceptable distribution levels by fixing the price on a portion of the production portfolio. As is often the case when hedging in rising commodity price markets, the Fund's revenues were reduced by these price-fixing mechanisms. The total reduction in revenue amounted to $1.3 million, or $0.76 per boe.

CURRENT HEDGING ACTIVITY

Period	Commodity	Volume	Price
February 1 – October 31, 2000	Gas	2.0 mmcf/d	$2.73/mcf
January 1 – June 30, 2000	Oil	300 bbl/d	US$ 20.00/bbl floor
			US$ 23.00/bbl ceiling
March 1 - 31, 2000	Oil	500 bbl/d	US$ 26.84/bbl

Revenue

Higher revenues in 1999 resulted from both volume and price increases for oil, NGL and natural gas. The factors that contributed to higher revenues are shown in the following table:

SALES VARIANCE ANALYSIS – BEFORE HEDGING

(000s)	**1999**	1998
Crude oil and NGL		
Volume increase	**$ 1,991**	$ 2,089
Price increase (decrease)	**$ 5,099**	$ (4,514)
Net increase (decrease)	**$ 7,090**	$ (2,425)
Natural gas		
Volume increase	**$ 2,299**	$ 3,403
Price increase (decrease)	**$ 4,943**	$ (1,242)
Net increase	**$ 7,242**	$ 2,161

Royalties

Royalty expense consists of royalties paid to provincial governments, freehold landowners and overriding royalties paid to others. Increased royalty rates in 1999 resulted from higher average commodity prices. The Alberta government provides a credit under the Alberta Royalty Credit program, which the Fund is eligible to access on a small portion of its properties. The Fund recorded $356,000 in Alberta Royalty Credit for 1999 and $354,000 for 1998.

	1999	1998
Total royalties, net (000s)	**$ 7,909**	$ 4,950
As % of revenue	**17.9%**	16.4%
Per boe	**$ 4.57**	$ 3.27

Operating Costs

Operating costs rose by 2.6% on a boe basis, due mainly to the effect of higher operating costs at Caroline. These one-time costs were incurred in the third and fourth quarters in order to improve production volumes. With the majority of these activities completed, operating costs are expected to revert to a lower per boe amount in 2000.

	1999	1998
Operating costs (000s)	**$ 11,446**	$ 9,756
As % of revenue	**25.9%**	32.3%
Per boe	**$ 6.61**	$ 6.44

General and Administrative Costs

General and administrative costs increased by 12% in aggregate over 1998, but declined both as a percentage of revenue and on a boe basis due to efficiencies resulting from improved economies of scale. At year-end 1999, Shiningbank had 13 full-time employees and eight full- and part-time consultants at its head office. Field and production staff consisted of one production superintendent, 10 full-time employees and nine contract operators. Costs of field and production staff are included in operating expenses. No general and administrative costs were capitalized.

	1999	1998
General and administrative costs (000s)	**$ 2,102**	$ 1,875
As % of revenue	**4.8%**	6.2%
Per boe	**$ 1.21**	$ 1.24

Management and marketing fees

Management and marketing fees rose in 1999 due to higher operating income. However, they dropped as a percentage of revenue due to the July 1, 1999 reduction in management fee rates to 3.25% of operating income from 3.5%, and the concurrent elimination of the marketing fee. While the actual amount paid per Trust Unit stayed the same, the fees dropped by 0.6% as a percentage of distributable income.

	1999	1998
Management and marketing fees (000s)	**$ 849**	$ 638
As % of revenue	**1.9%**	2.1%
As % of distributable income	**4.9%**	5.5%
Per boe	**$ 0.49**	$ 0.42
Per Trust Unit	**$ 0.08**	$ 0.08

Interest

Interest expense increased by 21% during 1999 due, in part, to increased borrowing rates and a higher average debt level during the year.

	1999	1998
Interest (000s)	**$ 2,175**	$ 1,797
As % of revenue	**4.9%**	6.0%
Per boe	**$ 1.26**	$ 1.19
Per Trust Unit	**$ 0.20**	$ 0.23

Depreciation and depletion

Depreciation and depletion rose by 22% during 1999 as a result of higher production volumes and a higher rate charged per boe. Per boe costs rose due to the addition of facilities related to third party processing revenues that do not have associated reserves, and from higher-priced acquisitions over the last two years.

	1999	1998
Depreciation and depletion (000s)	**$ 13,781**	$ 11,342
As % of revenue	**31.2%**	37.6%
Per boe	**$ 7.96**	$ 7.49

Net earnings

Shiningbank recorded net earnings of $4.7 million ($0.42 per Trust Unit) in 1999, up from a loss of $1.1 million ($0.16 per Trust Unit) in 1998. Increased commodity prices combined with higher production volumes, were the major contributors to the improved results.

Distributable Income

Distributable income for 1999 rose by 50% to $17.4 million as a result of improved commodity prices and higher production volumes. On a per Trust Unit basis, distributions rose by 12% to $1.60 from $1.43 in 1998.

Income tax information

In 1999, 29.18% of distributions payable by the Fund were required to be included in the income of unitholders. The balance of the distributions reduced each unitholder's adjusted cost base in their Trust Units for income tax purposes.

PER UNIT REVENUE AND EXPENSE ANALYSIS

	1999	1998	1997
Daily Production (boe/d)	**4,741**	4,151	3,531
Gross revenue	**$ 25.50**	$ 19.91	$ 24.32
Royalties	**(4.57)**	(3.27)	(4.38)
Operating costs	**(6.61)**	(6.44)	(6.70)
Gross margin	**14.32**	10.20	13.24
General and administrative	**(1.21)**	(1.24)	(1.42)
Management and marketing fees	**(0.49)**	(0.42)	(0.52)
Interest on long term debt	**(1.26)**	(1.19)	(0.61)
Capital expenditures and site restoration	**(1.23)**	(0.92)	(1.70)
Dividend to manager	**(0.10)**	(0.08)	(0.13)
Working capital adjustments and other	**0.03**	1.28	0.43
Distributable income per boe	**$ 10.06**	$ 7.63	$ 9.29

2000 DISTRIBUTABLE INCOME SENSITIVITIES

	($000s)	Per Trust Unit
US $1 per bbl	790	$ 0.07
Cdn $0.10 per mcf	810	$ 0.07
US $0.01 exchange	220	$ 0.02
100 bbl/d	500	$ 0.04
1 mmcf/d	660	$ 0.06
1% prime rate	400	$ 0.03

Costs of acquisitions and development

In 1999, Shiningbank acquired a total of $26.0 million in new properties in 27 separate transactions, and disposed of non-core properties in seven transactions with proceeds of $499,000. The most significant acquisitions were at Radial Lake and Caroline. Development drilling, workovers and construction of new facilities totaled $2.3 million. Combined acquisition and development costs totaled $6.60 per boe for the year. Strategic facility assets that generate third party processing revenues were also purchased. After removing the effect of the purchase of these assets, which have no reserves volumes attributed, the total costs amounted to $5.81 per established boe.

NET ASSET VALUE

	Discount factor		
(000s)	10%	12%	15%
Present value of reserves			
Proved	$ 120,175	$ 111,518	$ 100,918
Risked Probable	11,279	9,643	7,830
Undeveloped lands	1,600	1,600	1,600
Working capital (deficit)	(3,005)	(3,005)	(3,005)
Total assets	130,049	119,756	107,343
Long term debt	(35,519)	(35,519)	(35,519)
Net asset value	$ 94,530	$ 84,237	$ 71,824
Trust Units outstanding (thousands)	11,792	11,792	11,792
Net asset value per Trust Unit			
at December 31, 1999	**$ 8.02**	**$ 7.14**	**$ 6.09**
at December 31, 1998	$ 7.67	$ 6.62	$ 5.37

LIQUIDITY AND CAPITAL RESOURCES

Long term debt

Shiningbank maintains lines of credit with a Canadian chartered bank in the amount of $54 million, of which $35.5 million was drawn at December 31, 1999. The Fund's governing documents restrict debt levels to 40% of the value of its properties, and debt service costs are not to exceed 30% of projected annual cash flow. Neither of these limits was being approached at December 31, 1999.

During 1999, the Fund reduced the total amount drawn on its credit lines by $4.1 million and increased total lines of credit by $8.2 million. At year-end 1999, there was $12.3 million more in undrawn credit lines than in 1998. The bank will review these lines of credit in April 2000.

Unitholders' equity

Two issues of new Trust Units were completed in 1999 adding a total of $28.6 million in new equity to the Fund. Both issues were priced favourably relative to the market at the time. In February 1999, 1.1 million new Trust Units were issued at $9.50 each. Then in July 1999, 1.98 million new Trust Units were issued at $10.00 each in conjunction with the acquisition of the Caroline property. These issues left Shiningbank's debt to equity ratio at a healthy 52% at the end of the year. At December 31, 1999 the Fund had debt of 1.8 times its 1999 cash flow.

YEAR 2000

As of March 1, 2000, the Fund has not experienced any significant year 2000 computer problems and all office and field operations continue as normal. Costs of software and hardware upgrades to avoid potential year 2000 problems were minimal and were charged to earnings in 1999.

OPERATING RISKS AND UNCERTAINTIES

The oil and gas industry carries a number of inherent risks. The Fund is faced with risks that include: prices being subject to a complex set of local, national and international trading parameters; production risks relating to the ability to produce and process crude oil and natural gas from existing wells; the ability of the Fund to find or acquire sufficient quantities of crude oil and natural gas to replace production and maintain reserves; risks of government intervention and regulation; risks of environmental damage; and risks to the safety of its employees, contractors and the public.

To mitigate these risks, the Fund maintains financial flexibility, employs skilled personnel, both in the field and in head office, and ensures that they are equipped with the most efficient and effective tools and training. Shiningbank also maintains appropriate insurance coverage in order to minimize the impact of events which might cause substantial financial damage.

To further reduce risk, the Fund has focused operating strategies including marketing and financial strategies and employs hedging instruments when appropriate. Shiningbank's strategy of operating a significant portion of its production provides greater control over operational factors, including ensuring properties are operated in accordance with its policy to minimize impacts on the environment.

Maintaining an appropriate mix of sales contracts over varying lengths of time reduces exposure to short term price fluctuations, while allowing Shiningbank to take advantage of periods of price strength. Hedging product prices reduces price uncertainty, but hedges are not used as speculative vehicles.

Management's Responsibility for Financial Statements

Management is responsible for the integrity and objectivity of the information contained in this annual report and for the consistency between the financial statements and other financial operating data contained elsewhere in the report. The accompanying financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada using estimates and careful judgement, particularly in those circumstances where transactions affecting a current period are dependent upon future events. The accompanying financial statements have been prepared using policies and procedures established by management and reflect fairly the Fund's financial position, result of operations and cash flow, within reasonable limits of materiality and within the framework of the accounting policies as outlined in the notes to the financial statements.

Management has established and maintained a system of internal control which is designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and the financial information is reliable and accurate.

The financial statements have been examined by external auditors. Their examination provides an independent view as to management's discharge of its responsibilities insofar as they relate to the fairness of reported operating results and financial condition of the Fund.

The Audit Committee of the Board of Directors has reviewed in detail the financial statements with management and the external auditors. The financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.

DAVID M. FITZPATRICK
President & C.O.O.

BRUCE K. GIBSON
Vice President, Finance & C.F.O.

Auditors' Report

TO THE UNITHOLDERS OF SHININGBANK ENERGY INCOME FUND

We have audited the consolidated balance sheets of Shiningbank Energy Income Fund as at December 31, 1999 and 1998 and the consolidated statements of earnings and unitholders' equity, cash flow and net production revenue and distributable income for the years ended December 31, 1999 and 1998. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 1999 and 1998 and the results of its operations and its cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Calgary, Canada

March 14, 2000

Consolidated Balance Sheets

As at December 31 *($ thousands)*	1999	1998
ASSETS		
Current assets		
Accounts receivable	**$ 7,135**	$ 6,349
Prepaid expenses and inventory	**932**	548
	8,067	6,897
Fixed assets (note 3)		
Petroleum and natural gas properties and equipment	**149,307**	121,522
Accumulated depletion and depreciation	**(39,132)**	(25,351)
	110,175	96,171
	$ 118,242	$ 103,068
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities		
Accounts payable	**$ 5,766**	$ 5,118
Trust Unit distribution payable	**5,306**	3,128
	11,072	8,246
Long term debt (note 4)	**35,519**	39,602
Provision for future site restoration	**2,716**	1,996
Unitholders' equity		
Trust Units (note 5)	**106,635**	78,010
Accumulated income	**7,619**	3,133
Accumulated royalty distributions	**(45,319)**	(27,919)
	68,935	53,224
	$ 118,242	$ 103,068

Approved on behalf of Shiningbank Energy Income Fund by Shiningbank Energy Ltd.

Director

Director

See accompanying notes to consolidated financial statements

Consolidated Statements of Earnings and Unitholders' Equity

For the years ended December 31 *($ thousands, except per Trust Unit amounts)*	**1999**	1998
Revenues		
Oil and natural gas sales	**$ 44,129**	$ 30,163
Royalties	**(7,909)**	(4,950)
	36,220	25,213
Expenses		
Operating	**11,446**	9,756
General and administrative	**2,102**	1,875
Management and marketing fees	**849**	638
Interest on long term debt	**2,175**	1,797
Depreciation and depletion	**13,781**	11,342
Provision for future site restoration	**1,069**	917
Capital and large corporation taxes	**135**	30
	31,557	26,355
Net earnings (loss)	**4,663**	(1,142)
Unitholders' equity, beginning of year	**53,224**	55,678
Proceeds on issue of Trust Units	**28,625**	10,367
Royalty distributions	**(17,400)**	(11,562)
Dividends to manager	**(177)**	(117)
Unitholders' equity, end of year	**$ 68,935**	$ 53,224
Net earnings (loss) per Trust Unit (basic and fully diluted)	**$ 0.42**	$ (0.16)

See accompanying notes to consolidated financial statements

Consolidated Statements of Cash Flow

For the years ended December 31 *($ thousands)*	**1999**	1998
OPERATING ACTIVITIES		
Net earnings (loss)	**$ 4,663**	$ (1,142)
Items not requiring cash		
Depreciation and depletion	**13,781**	11,342
Provision for future site restoration	**1,069**	917
Cash flow from operating activities	**19,513**	11,117
Changes in non-cash working capital	**(138)**	(844)
	19,375	10,273
FINANCING ACTIVITIES		
Increase (decrease) in long term debt	**(4,083)**	21,507
Distributions to unitholders	**(17,400)**	(11,562)
Issue of Trust Units	**28,625**	10,367
Dividends to manager	**(177)**	(117)
	6,965	20,195
Changes in non-cash working capital	**2,177**	132
	9,142	20,327
Total cash provided	**$ 28,517**	$ 30,600
INVESTING ACTIVITIES		
Property acquisitions	**$ (26,005)**	$ (28,824)
Capital expenditures	**(2,278)**	(1,754)
Proceeds on sale of fixed assets	**499**	422
Site restoration costs	**(349)**	(56)
	(28,133)	(30,212)
Changes in non-cash working capital	**(384)**	(388)
Total cash used	**$ (28,517)**	$ (30,600)

See accompanying notes to consolidated financial statements

Statements of Net Production Revenue and Distributable Income

For the years ended December 31 *($ thousands, except per Trust Unit amounts)*	**1999**	1998
Revenues		
Oil and natural gas sales	**$ 44,129**	$ 30,163
Non-crown royalties	**(861)**	(1,033)
	43,268	29,130
Expenditures		
Operating	**11,446**	9,756
Capital	**1,780**	1,332
Site restoration costs	**349**	56
	13,575	11,144
Net production revenue	**29,693**	17,986
Deductions		
Administration	**2,102**	1,875
Management and marketing fees	**849**	638
Interest on long term debt	**2,175**	1,797
Capital and large corporation taxes	**135**	30
Amounts not attributable to the royalty	**990**	835
Working capital adjustments	**(182)**	(1,941)
	6,069	3,234
Net production revenue in excess of deductions	**$ 23,624**	$ 14,752
Royalty income to the Fund – 99%	**$ 23,388**	$ 14,604
Crown charges net of Alberta Royalty Credit – 99%	**(6,978)**	(3,877)
Interest income to the Fund	**990**	835
Distributable income	**$ 17,400**	$ 11,562
Distributable income per Trust Unit	**$ 1.60**	$ 1.43
Trust Units outstanding	**11,791,833**	8,689,333

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

For the years ended December 31, 1999 and 1998

1. ORGANIZATION

Shiningbank Energy Income Fund (the "Fund") is an open-end investment trust formed under the laws of the Province of Alberta pursuant to a trust indenture dated May 16, 1996 and amended November 6, 1997. Operations commenced on July 1, 1996. The beneficiaries of the Fund are the holders (the "Unitholders") of trust units (the "Trust Units").

The Fund is managed, pursuant to the terms of a management agreement, by Shiningbank Energy Management Inc. (the "Manager") which also owns all of the outstanding shares of Shiningbank Energy Ltd. ("the Corporation"). As a result of the terms of a unanimous shareholder agreement between the Fund, the Corporation and the Manager, however, the Fund controls the Corporation.

Pursuant to a reorganization of the Fund approved by the Unitholders on November 6, 1997, the Fund was reorganized from a closed-end mutual fund trust to an open-end mutual fund trust, allowing it to hold assets other than the 99% royalty in the properties of the Corporation. At that time, a new subsidiary, Shiningbank Energy Acquisitions Ltd., ("SEAL") was incorporated to hold certain assets acquired during 1997. The Fund holds all of the issued and outstanding shares of SEAL.

The trust indenture provides that 300,000,000 Trust Units may be issued. Each Trust Unit represents an equal fractional beneficial interest in any distributions from the Fund and in the net assets of the Fund on termination or winding up of the Fund. All Trust Units rank among themselves equally and rateably without discrimination, preference or priority. The trust indenture provides that Trust Units are redeemable at any time on demand by the Unitholders at amounts as determined by a market price formula. The total amount payable by the Fund in respect of all Trust Units tendered for redemption, however, may not exceed $100,000 in any calendar month.

The Fund makes quarterly distributions to Unitholders of record as of the last day of each calendar quarter.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

These consolidated financial statements include the accounts of the Fund, the Corporation and the Fund's wholly owned subsidiary SEAL.

(b) Fixed assets

The Fund follows the full cost method of accounting for petroleum and natural gas properties under which all acquisition and development costs are capitalized. Such costs include land acquisition, geological, geophysical and drilling costs for productive and non-productive wells and directly related overhead charges. Proceeds from the sale of petroleum and natural gas properties are applied against capitalized costs. Gains or losses upon disposition of such properties are not recognized unless the disposition would alter the depreciation and depletion rate by 20% or more.

The costs of fixed assets, plus a provision for future development costs of proved undeveloped reserves, are depleted and depreciated using the unit-of-production method based on estimated total proved reserves volumes, before royalties, as determined by independent engineers. Proved reserves are converted to a common unit of measure on the basis of their approximate relative energy content. The ceiling test has been computed using prices and costs in effect at the end of each period.

(c) Future site restoration costs

Estimated future site restoration and abandonment costs are provided for using the unit-of-production method. Costs are estimated by the Fund based on current regulations, costs, technology and industry standards. Actual site restoration and abandonment costs are charged against the liability as incurred.

(d) Income taxes

The Fund is a taxable trust under the Income Tax Act (Canada). Any taxable income is allocated to the Unitholders and therefore no provision for income taxes relating to the Fund is included in these financial statements.

The Corporation and SEAL are taxable Canadian corporations and are liable for tax on income retained in each corporation. Both corporations are also subject to capital taxes in jurisdictions where such taxes apply. Income and capital taxes are deducted from distributions to Unitholders.

(e) Financial instruments

Financial instruments of the Corporation consist mainly of accounts receivable, accounts payable and long term debt. The Corporation also from time to time employs financial instruments to manage exposures related to interest rates, Canada/US exchange rates and commodity prices. These instruments are not used for speculative trading purposes.

(f) Statement of Net Production Revenue and Distributable Income

The revenues, expenditures and other deductions on the statement of Net Production Revenue and Distributable Income include amounts applicable to the Corporation and SEAL. The royalty income of the Fund is based on the portion of these amounts applicable to the Corporation. The Fund receives interest income in respect of the amounts applicable to SEAL.

(g) Stock based compensation plan

Consideration paid by employees and directors of the Manager and the Corporation on the exercise of Trust Unit options under the Fund's Trust Unit Option Plan is recorded in Trust Units upon receipt.

(h) Joint ventures

Substantially all of the Fund's petroleum and natural gas activities are conducted jointly with others and, accordingly, these financial statements reflect only the Fund's proportionate interest in such activities.

(i) Measurement uncertainty

The amounts recorded for depletion and depreciation of petroleum and natural gas properties and equipment and the provision for future site restoration costs are based on estimates. The ceiling test calculation is based on estimates of proved reserves, production rates, oil and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect of changes in such estimates in future years on the financial statements could be significant.

3. FIXED ASSETS

During 1999, the Fund acquired additional petroleum and natural gas properties in the amount of $26,005,000 (December 31, 1998 – $28,824,000) which have been accounted for as purchases.

4. LONG TERM DEBT

The Corporation and SEAL have an aggregate of $54.0 million in revolving demand credit facilities with a Canadian chartered bank. As at December 31, 1999, $35.5 million was drawn against these facilities (December 31, 1998 – $39.6 million). Drawings on the facilities may be made in several forms including bankers' acceptances. The average borrowing rate at December 31, 1999 was 6.14% (December 31, 1998 – 6.11%). The loan of the Corporation is secured by a $100 million floating charge debenture on all assets of the Corporation and the loan of SEAL is secured by a $10 million floating charge debenture on all assets of SEAL. The facilities have no fixed terms of repayment and are subject to annual review by the bank.

5. TRUST UNITS

(a) Authorized

300,000,000 Trust Units

(b) Issued

	1999		1998	
($ thousands)	**Number**	**Amount**	Number	Amount
Balance, beginning of year	**8,689,333**	**$ 78,010**	7,489,333	$ 67,643
Issued for cash	**3,102,500**	**30,475**	1,200,000	11,100
Commissions and issue costs	**–**	**(1,850)**	–	(733)
Balance, end of year	**11,791,833**	**$106,635**	8,689,333	$ 78,010

(c) Trust Unit Options

Under the terms of the trust unit option plan, up to 7.5% of the issued and outstanding Trust Units may be reserved for grants to the directors, officers and employees of the Manager and the Corporation. At December 31, 1999, a total of 734,200 Trust Units were reserved for issuance under the plan. One third of the options may be exercised commencing after the first anniversary of the date of grant and an additional one third becomes exercisable on each of the following two anniversaries. The options expire after 10 years. The exercise price of each option equals the market price of the Fund's Trust Units on the date of the grant. On December 31, 1999, 352,500 options were outstanding under the plan with exercise prices between $9.90 and $10.00 per unit, and a weighted average remaining contractual life of 6.7 years.

($ thousands)	1999 Number	1999 Weighted average exercise price	1998 Number	1998 Weighted average exercise price
Balance, beginning of year	**375,000**	**$ 9.99**	375,000	$ 9.99
Exercised	**(22,500)**	**$ 10.00**	–	–
Balance, end of year	**352,500**	**$ 9.99**	375,000	$ 9.99

(d) Per Trust Unit amounts

Net earnings (loss) per Trust Unit have been calculated using the weighted average number of Trust Units outstanding during each period as follows: December 31, 1999 – 10,659,847; December 31, 1998 – 7,910,155. Assuming the exercise of the Trust Unit Options, there would be no dilution in net earnings (loss) per Trust Unit. Net earnings (loss) per Trust Unit are calculated after deduction of dividends paid to the Manager.

6. RELATED PARTY TRANSACTIONS

The Manager, the parent company of the Corporation, provides services to the Fund, the Corporation and SEAL pursuant to a management agreement. The Fund, through the Corporation, paid the Manager $849,000 in 1999 (1998 – $638,000) for management and marketing fees, together with $2,102,000 (1998 – $1,875,000) for recovery of general and administrative and financing expenses. These amounts have been charged to earnings. A further fee of $400,000 (1998 – $493,000) was paid in respect of acquisition fees, which amounts have been capitalized. Current liabilities at December 31, 1999 include $743,000 (1998 – $317,000) payable to the Manager.

7. FINANCIAL INSTRUMENTS

As at December 31, 1999, there are no significant differences between the carrying amounts and the fair value of accounts receivable, payable and long term debt. The Corporation is exposed to interest rate variance on the long term debt disclosed in the balance sheet. Gains and losses on exchange rate and commodity price hedges are included in revenues upon the sale of related production provided there is reasonable assurance that the hedge is and will continue to be effective.

As at December 31, 1999, the Corporation held a natural gas hedge contract for the period from February 1, 2000 through October 31, 2000 totalling 2,000 mcf per day at $2.73 per mcf. The estimated market value at December 31, 1999, had the contract been settled at that time, would have been a loss of $128,000.

Effective December 31, 1999, the Corporation held an oil hedge contract for the period from January 1, 2000 to June 30, 2000 totalling 300 barrels of oil per day with a floor of US$20.00 and a ceiling of US$23.00. The estimated market value at December 31, 1999, had the contract been settled at that time, would have been a loss of $92,000.

As at December 31, 1999 the Corporation held an interest rate swap expiring October 2, 2000, for $7.0 million at an interest rate of 5.25%. The estimated market value at December 31, 1999, had the contract been settled at that time, would have been a gain of $7,000.

Four-Year Operating and Financial Review

	1999	1998	1997	1996
FINANCIAL ($000s except per Trust Unit amounts)				
Gross revenues	**44,129**	30,163	31,343	12,619
Royalties	**(7,909)**	(4,950)	(5,651)	(2,153)
Operating expenses	**(11,446)**	(9,756)	(8,634)	(2,965)
OPERATING NETBACK	**24,774**	15,457	17,058	7,501
General and administrative	**2,102**	1,875	1,825	604
Management and marketing fees	**849**	638	664	289
Interest	**2,175**	1,797	782	425
Other	**135**	30	37	165
CASH FLOW	**19,513**	11,117	13,750	6,018
Depreciation and depletion	**13,781**	11,342	9,771	4,239
Provision for site restoration	**1,069**	917	793	408
NET EARNINGS	**4,663**	(1,142)	3,186	1,371
Cash flow	**19,513**	11,117	13,750	6,018
Capital expenditures	**(2,129)**	(1,388)	(2,196)	(104)
Other	**16**	1,833	429	(1,540)
DISTRIBUTABLE INCOME	**17,400**	11,562	11,983	4,374
Per Trust Unit	**$ 1.60**	$ 1.43	$ 1.60	$ 0.83
Long term debt	**35,519**	39,602	18,095	27,176
Acquisitions and development costs	**28,283**	30,578	19,453	75,196
Unitholders' equity	**68,935**	53,224	55,678	44,285
Total assets	**118,242**	103,068	81,674	76,941
Trust Units outstanding at year end	**11,791,833**	8,689,333	7,489,333	5,289,333
Trading History				
High	**$ 11.40**	$ 10.30	$ 11.50	$ 12.10
Low	**$ 9.45**	$ 7.75	$ 8.35	$ 9.70
Close	**$ 10.65**	$ 10.00	$ 9.10	$ 11.60
Volume (millions of units)	**5.1**	5.0	5.5	4.1
OPERATING				
Oil (bbl/d)	**1,298**	1,208	1,215	845
Gas (mmcf/d)	**27.5**	24.7	20.8	20.0
NGL (bbl/d)	**697**	478	241	221
Boe (bbl/d) (10:1)	**4,741**	4,151	3,531	3,070
Average sales price (after hedging)				
Oil ($/bbl)	**$ 25.85**	$ 17.65	$ 26.11	$ 30.24
Gas ($/mcf)	**$ 2.68**	$ 2.23	$ 2.39	$ 1.92
NGL ($/bbl)	**$ 19.54**	$ 13.65	$ 19.18	$ 20.22
Boe ($/boe) (10:1)	**$ 25.50**	$ 19.90	$ 24.32	$ 22.34
Established reserves				
(Proven plus 50% probable) (mboe)	**16,416**	14,770	12,372	11,095

1996 figures are for the period from July 1 through December 31

1996 and 1997 trading statistics include a $4.00 instalment payment made July 31, 1997

Corporate Information

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BANKERS

The Toronto-Dominion Bank
Calgary, Alberta

AUDITORS

KPMG LLP
Calgary, Alberta

ENGINEERING CONSULTANTS

Paddock Lindstrom &
Associates Ltd.
Calgary, Alberta

LEGAL COUNSEL

Gowling, Strathy & Henderson
Calgary, Alberta

STOCK EXCHANGE LISTING

The Toronto Stock Exchange
Symbol: SHN.UN

BOARD OF DIRECTORS

Arne R. Nielsen
Chairman & Chief Executive Officer

David M. Fitzpatrick
President & Chief Operating Officer

D. Grant Gunderson
Director

Edward W. Best
Director

Warren D. Steckley
Director

OFFICERS

Arne R. Nielsen
Chairman & Chief Executive Officer

David M. Fitzpatrick
President & Chief Operating Officer

Bruce K. Gibson
Vice President, Finance & Chief Financial Officer

Gregory D. Moore
Vice President, Operations

Donald L. Mundie
Vice President, Land

Richard W. Clark
Corporate Secretary

NOTICE OF MEETING

The Special and Annual General Meeting of the unitholders of Shiningbank Energy Income Fund and the Annual General Meetings of Shiningbank Energy Ltd. and Shiningbank Energy Acquisitions Ltd. will be held on Tuesday, May 9, 2000 at 3:00 p.m. (local time) in the Eau Claire Room of the Westin Hotel, 320 – 4th Avenue S.W., Calgary, Alberta. Unitholders are encouraged to attend, and those unable to do so are asked to complete and return the Form of Proxy.

ABBREVIATIONS

bbl	barrels of oil or natural gas liquids
bcf	billion cubic feet of natural gas
boe	barrels of oil equivalent (10,000 cubic feet of natural gas is equivalent to one barrel of oil)
/d	per day
mbbl	thousand barrels
mboe	thousand barrels of oil equivalent
mcf	thousand cubic feet of natural gas
mmcf	million cubic feet of natural gas
NGL	natural gas liquids

OUR EMPLOYEES & CONSULTANTS

Chad Beauliua
Susie Bergermann
Duane Bourgeois
Judy Britton
Debbie Carver
S. Ken Chalmers
Darleen de Champlain
Dave Fitzpatrick
Bruce Gibson
Ian Gillies
Indy Grewal
Trevor Hans
Paul House
Paul Johnston
Harold Junck
Jerry Keeler
Doug Kidd
Darcy Lamoureux
Betty-Lou Lloyd
Carol Mahoney
Pierre Marchand
Rob Miller
Greg Moore
Ben Morris
Al Morrow
Don Mundie
Brenda Mychasiuk
Arne Nielsen
Al Noren
Cory Pettifor
Wendy Phillips
Lawrence Schaff
Irv Scott
Gene Siddall
Liz Tanouye
Brian Thompson
Ed Wall

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